

Massachusetts Bankers Association

**Statement of David Floreen,
Senior Vice President, Massachusetts Bankers Association
In Opposition to Docket #1400
Ordinance amending CBC Chapter 6-8
(Municipal Depositories and Contracts for Banking Services)
Boston City Council Committee on Government Operations
December 10, 2010**

Good afternoon, I am David Floreen, senior vice president, Massachusetts Bankers Association, which represents all of the nearly 200 commercial, cooperative savings and federal savings banks operating in Massachusetts. I appear on behalf of all member banks, including the 28 Massachusetts-based banks with offices within the City of Boston including large multi-state institutions and local community banks, in opposition to Docket # 1400, a proposed ordinance amended CBC 6-8 (Municipal Depositories and Contracts for Banking Services) which was filed by Councilor Felix Arroyo on October 6, 2010.

Let me begin by acknowledging the concerns that many public officials, consumers, businesses and others have expressed regarding the recent financial services environment. We have experienced the most significant national and international upheaval to the financial markets in over 70 years and the repercussions from that upheaval will be felt for years to come. I am pleased to report, however, that the Massachusetts banking industry is healthy, profitable, has plenty of money to lend to consumers and small businesses on terms consistent with long-standing lending practices. Local banks never engaged in the aggressive and questionable practices favored by non-bank and out-of-state mortgage companies and brokers. They remained committed to their local communities and neighborhoods and they are grateful for the strong support of their local customers.

The proposed ordinance before you today, while perhaps well-intentioned, would create many unintended, negative effects on the City of Boston's ability to obtain the broad range of essential banking services it needs such as payroll, cash management, lockbox and others. It would also impose significant and needless costs on local banks. In the brief time allotted, let me share just a few points of deep concern with the proposed ordinance:

First, the proposal seems to be a solution in search of a problem. For many years Boston has had a successful Linked Deposit Program where local banks may bid for deposits based on their CRA rankings and commitment to lend city funds back into the community. The current system seems to work well as an incentive for local banks to obtain city deposits.

Second, the proposed ordinance would create a new Municipal Banking and Community Reinvestment Commission that would have sweeping authority to impose new standards by which the City of Boston would determine which financial institutions would be eligible to secure contracts to do business with the city. As we read it, this commission would have 16 members, only one of which would represent the business community, creating an inherently distorted perspective.

Third, this commission would, based on criteria outlined elsewhere in the proposed ordinance, rank all eligible financial institutions as to their "new" community reinvestment score. This score would be based on a very detailed compilation of data that any financial institution would have to collect and report to the commission. The scope and detail of the information to be collected, to our knowledge, is unparalleled by any other city in the United States.

Fourth, the proposed ordinance is flawed as it lists non-tax paying credit unions as eligible institutions when state law prohibits credit unions from accepting public deposits. The proposed ordinance also excludes the Massachusetts Municipal Depository Trust (MMDT) when it manages billions of dollars in out-of-state investments for the Commonwealth and municipal governments.

I can assure you that very few local institutions have the resources to collect the data sought and furthermore would not be inclined to do so, as the costs of developing specialized collection and monitoring systems would far outweigh the revenues generated from a contract with the City of Boston. This provision would serve as a real disincentive for any local community bank to bid for any banking business with the City of Boston-defeating one of the purported intents of the ordinance to distribute more funds to local banks.

For the reasons outlined above, and many more likely negative unintended consequences, we strongly believe that this ordinance at best deserves considerable additional study, if not disapproval. We understand the frustration that some have with the economic challenges facing some of your constituents. This ordinance would exacerbate the long term financial capabilities of the City of Boston, not help it move forward.

Thank you for listening to our concerns and I welcome any questions.